

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature <i>Siegfried Crandall P.C.</i>			Date	

Village of Lawton
Van Buren County, Michigan
**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**
Year ended February 28, 2005

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INDEPENDENT AUDITORS' REPORT

**To the Members of the Village Council
Village of Lawton, Michigan**

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Village of Lawton, Michigan, as of February 28, 2005, and for the year then ended, which collectively comprise the Village of Lawton, Michigan's financial statements, as listed in the contents. These financial statements are the responsibility of the Village of Lawton, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the Village of Lawton, Michigan, as of February 28, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 12, the Village of Lawton, Michigan has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of March 1, 2004.

The budgetary comparison schedules listed in the contents are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The Village has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the financial statements.

Members of the Village Council
Village of Lawton, Michigan
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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Lawton, Michigan's basic financial statements. The accompanying supplementary data is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The supplementary data has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Siegfried Crandall P.C.

August 3, 2005

BASIC FINANCIAL STATEMENTS

Village of Lawton
STATEMENT OF NET ASSETS
February 28, 2005

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
ASSETS			
Current assets:			
Cash	\$ 1,217,567	\$ 1,053,688	\$ 2,271,255
Receivables (net)	175,448	68,152	243,600
Inventory	<u>-</u>	<u>31,381</u>	<u>31,381</u>
Total current assets	1,393,015	1,153,221	2,546,236
Noncurrent assets:			
Capital assets, net of accumulated depreciation	<u>927,080</u>	<u>2,630,132</u>	<u>3,557,212</u>
Total assets	<u>2,320,095</u>	<u>3,783,353</u>	<u>6,103,448</u>
LIABILITIES			
Current liabilities:			
Payables	50	15,625	15,675
Customer deposits	-	31,350	31,350
Current portion of long-term obligations	<u>-</u>	<u>85,000</u>	<u>85,000</u>
Total current liabilities	50	131,975	132,025
Noncurrent liabilities:			
Long-term obligations	<u>-</u>	<u>1,415,000</u>	<u>1,415,000</u>
Total liabilities	<u>50</u>	<u>1,546,975</u>	<u>1,547,025</u>
NET ASSETS			
Invested in capital assets, net of related debt	927,080	1,130,132	2,057,212
Restricted:			
Public safety	5,824	-	5,824
Public works	501,585	-	501,585
Recreation and culture	103,889	-	103,889
Unrestricted	<u>781,667</u>	<u>1,106,246</u>	<u>1,887,913</u>
Total net assets	<u>\$ 2,320,045</u>	<u>\$ 2,236,378</u>	<u>\$ 4,556,423</u>

See notes to the financial statements

Village of Lawton
STATEMENT OF ACTIVITIES
Year ended February 28, 2005

		Program revenues		
		Charges for	Operating	Capital
	<u>Expenses</u>	<u>services</u>	<u>grants and</u>	<u>grants and</u>
Functions/Programs			<u>contributions</u>	<u>contributions</u>
Governmental activities:				
Legislative	\$ 8,943	\$ -	\$ -	\$ -
General government	573,384	26,275	-	-
Public safety	256,324	7,399	4,015	-
Public works	173,037	8,435	165,435	-
Recreation and culture	142,287	16,903	66,813	-
Community and economic development	12,778	-	-	-
Loss on disposal of capital assets	<u>848</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	1,167,601	59,012	236,263	-
Business-type activities:				
Water and Sewer	<u>463,380</u>	<u>521,300</u>	<u>-</u>	<u>1,250</u>
Total primary government	<u>\$ 1,630,981</u>	<u>\$ 580,312</u>	<u>\$ 236,263</u>	<u>\$ 1,250</u>

General revenues
Property taxes
State shared revenue
Interest and rental income
Other

Total general revenues

Change in net assets

Net assets - beginning

Net assets - ending

Net (expenses) revenues and changes in net assets

<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
\$ (8,943)		\$ (8,943)
(547,109)		(547,109)
(244,910)		(244,910)
833		833
(58,571)		(58,571)
(12,778)		(12,778)
<u>(848)</u>		<u>(848)</u>
(872,326)		(872,326)
<u>-</u>	\$ <u>59,170</u>	<u>59,170</u>
<u>(872,326)</u>		<u>(813,156)</u>
528,892	-	528,892
204,924	-	204,924
25,373	498	25,871
<u>23,501</u>	<u>4,975</u>	<u>28,476</u>
<u>782,690</u>	<u>5,473</u>	<u>788,163</u>
(89,636)	5,473	(24,993)
<u>2,409,681</u>	<u>2,171,735</u>	<u>4,581,416</u>
<u>\$ 2,320,045</u>	<u>\$ 2,177,208</u>	<u>\$ 4,556,423</u>

See notes to the financial statements

Village of Lawton
BALANCE SHEET - governmental funds
February 28, 2005

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Library</u>	<u>Total governmental funds</u>
ASSETS					
Cash	\$ 547,901	\$ 364,027	\$ 110,551	\$ 78,142	\$ 1,100,621
Receivables (net)	<u>119,722</u>	<u>19,444</u>	<u>7,563</u>	<u>28,719</u>	<u>175,448</u>
Total assets	<u>\$ 667,623</u>	<u>\$ 383,471</u>	<u>\$ 118,114</u>	<u>\$ 106,861</u>	<u>\$ 1,276,069</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Payables	\$ 50	\$ -	\$ -	\$ -	\$ 50
Deferred revenue	<u>68,694</u>	<u>-</u>	<u>-</u>	<u>2,972</u>	<u>71,666</u>
Total liabilities	<u>68,744</u>	<u>-</u>	<u>-</u>	<u>2,972</u>	<u>71,716</u>
Fund balances:					
Reserved for:					
Criminal training programs	5,458	-	-	-	5,458
Drug enforcement programs	366	-	-	-	366
Unreserved, undesignated	<u>593,055</u>	<u>383,471</u>	<u>118,114</u>	<u>103,889</u>	<u>1,198,529</u>
Total fund balances	<u>598,879</u>	<u>383,471</u>	<u>118,114</u>	<u>103,889</u>	<u>1,204,353</u>
Total liabilities and fund balances	<u>\$ 667,623</u>	<u>\$ 383,471</u>	<u>\$ 118,114</u>	<u>\$ 106,861</u>	

Amounts reported for *governmental activities* in the statement of net assets (Page 5) are different because:

Capital assets used in *governmental activities* are not financial resources and, therefore, are not reported in the funds. 865,166

Certain assets used in *governmental activities* are not available to pay for current-period expenditures and, therefore, are deferred in the funds. 71,666

An internal service fund is used by management to charge costs of equipment to individual funds. The assets and liabilities of the internal service fund are included in *governmental activities* in the statement of net assets. 178,860

Net assets of *governmental activities* (page 5) \$ 2,320,045

See notes to the financial statements

Village of Lawton

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND

BALANCES - governmental funds

Year ended February 28, 2005

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Library</u>	<u>Total governmental funds</u>
REVENUES					
Taxes	\$ 489,703	\$ -	\$ -	\$ 31,839	\$ 521,542
Licenses and permits	28,459	-	-	-	28,459
State grants	216,019	113,111	43,960	3,609	376,699
Contributions from local units	-	-	-	63,204	63,204
Charges for services	26,460	-	-	-	26,460
Fines and forfeitures	5,199	-	-	16,903	22,102
Interest and rentals	19,805	3,424	1,004	1,140	25,373
Other	4,879	-	-	1,896	6,775
Total revenues	<u>790,524</u>	<u>116,535</u>	<u>44,964</u>	<u>118,591</u>	<u>1,070,614</u>
EXPENDITURES					
Legislative	8,943	-	-	-	8,943
General government	549,106	-	-	12,970	562,076
Public safety	259,232	-	-	-	259,232
Public works	85,843	63,855	22,685	-	172,383
Community and economic development	12,778	-	-	-	12,778
Recreation and culture	23,117	-	-	103,717	126,834
Total expenditures	<u>939,019</u>	<u>63,855</u>	<u>22,685</u>	<u>116,687</u>	<u>1,142,246</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(148,495)	52,680	22,279	1,904	(71,632)
FUND BALANCES - BEGINNING	<u>747,374</u>	<u>330,791</u>	<u>95,835</u>	<u>101,985</u>	<u>1,275,985</u>
FUND BALANCES - ENDING	<u>\$ 598,879</u>	<u>\$ 383,471</u>	<u>\$ 118,114</u>	<u>\$ 103,889</u>	<u>\$ 1,204,353</u>

See notes to the financial statements

Village of Lawton

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - governmental funds (Continued)**

Year ended February 28, 2005

Reconciliation of the statement of revenues, expenditures, and changes in fund
balances - governmental funds to the statement of activities:

Net change in fund balances - total governmental funds (page 8)	\$ (71,632)
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Amounts reported for *governmental activities* in the statement of
activities (page 6) are different because:

Capital assets:

Current year additions	9,595
Provisions for depreciation	(31,496)
Loss on disposal of capital assets	(848)

Net change in deferred revenue	7,350
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Net expense of the internal service fund is reported with <i>governmental activities</i> .	<u>(2,605)</u>
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Change in net assets of <i>governmental activities</i> (page 6)	<u>\$ (89,636)</u>
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See notes to the financial statements

Village of Lawton
STATEMENT OF NET ASSETS - proprietary funds
February 28, 2005

	<u>Business-type activities</u>	<u>Governmental activities</u>
	<u>Water and Sewer</u>	<u>Internal Service</u>
ASSETS		
Current assets:		
Cash	\$ 1,053,688	\$ 116,946
Receivables (net)	68,152	-
Inventory	31,381	-
Total current assets	1,153,221	116,946
Noncurrent assets:		
Capital assets, net of accumulated depreciation	2,630,132	61,914
Total assets	3,783,353	178,860
LIABILITIES		
Current liabilities:		
Payables	15,625	-
Customer deposits	31,350	-
Current portion of long-term debt	85,000	-
Total current liabilities	131,975	-
Noncurrent liabilities:		
Long-term obligations	1,415,000	-
Total liabilities	1,546,975	-
NET ASSETS		
Investment in capital assets, net of related debt	1,130,132	61,914
Unrestricted	1,106,246	116,946
Total net assets	\$ 2,236,378	\$ 178,860

See notes to the financial statements

Village of Lawton**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS - *proprietary funds****Year ended February 28, 2005*

	Business-type activities	Governmental activities
	<i>Water and Sewer</i>	<i>Internal Service</i>
OPERATING REVENUES		
Charges for services:		
Public utility fees	\$ 521,300	\$ -
Equipment rental	-	92,171
Other	4,975	-
	<u>526,275</u>	<u>92,171</u>
Total operating revenues		
	<u>526,275</u>	<u>92,171</u>
OPERATING EXPENSES		
Personnel costs	78,877	26,548
Contracted services	114,264	850
Supplies	17,148	30,421
Utilities	67,678	-
Maintenance	43,051	3,594
Internal charges	14,034	1,800
Miscellaneous	15,015	7,065
Depreciation	79,407	25,451
	<u>429,474</u>	<u>95,729</u>
Total operating expenses		
	<u>429,474</u>	<u>95,729</u>
Operating income (loss)	<u>96,801</u>	<u>(3,558)</u>
NONOPERATING REVENUES (EXPENSES)		
Connection fees	1,250	-
Interest revenue	498	952
Interest expense	(33,906)	-
	<u>(32,158)</u>	<u>952</u>
Net nonoperating revenues (expenses)		
	<u>(32,158)</u>	<u>952</u>
CHANGE IN NET ASSETS	64,643	(2,606)
NET ASSETS - BEGINNING	<u>2,171,735</u>	<u>181,466</u>
NET ASSETS - ENDING	<u>\$ 2,236,378</u>	<u>\$ 178,860</u>

See notes to the financial statements

Village of Lawton
STATEMENT OF CASH FLOWS - proprietary funds
Year ended February 28, 2005

	<i>Business-type activities</i>	<i>Governmental activities</i>
	<i>Water and Sewer</i>	<i>Internal Service</i>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 533,056	\$ 92,171
Payments to vendors and suppliers	(267,871)	(43,730)
Payments to employees	(78,877)	(26,548)
Net cash provided by operating activities	186,308	21,893
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Connection fees	1,250	-
Acquisition of capital assets	(3,747)	(5,600)
Principal payments on long-term debt	(85,000)	-
Interest payments on long-term debt	(34,706)	-
Net cash used in capital and related financing activities	(122,203)	(5,600)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	498	952
NET INCREASE IN CASH	64,603	17,245
CASH - BEGINNING	989,085	99,701
CASH - ENDING	\$ 1,053,688	\$ 116,946

See notes to the financial statements

Village of Lawton

STATEMENT OF CASH FLOWS - proprietary funds (Continued)

Year ended February 28, 2005

	Business-type activities	Governmental activities
	<u>Water and Sewer</u>	<u>Internal service</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 96,801	\$ (3,558)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	79,407	25,451
Decrease in:		
Receivables, net	5,561	-
Inventory	2,220	
Increase in payables	<u>2,319</u>	<u>-</u>
Net cash provided by operating activities	<u>\$ 186,308</u>	<u>\$ 21,893</u>

See notes to the financial statements

Village of Lawton
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Village of Lawton, Michigan (the Village), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the significant accounting policies.

a) Reporting entity:

The accompanying financial statements present only the Village. There are no component units, entities for which the Village is considered to be financially accountable.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Village. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Village of Lawton
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Village.

The Village reports the following major governmental funds:

- The General Fund is the Village's primary operating fund. It accounts for all financial resources of the Village, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.
- The Major Street Fund accounts for the use of allocated state gas and weight taxes used for the maintenance and construction of major streets within the Village.
- The Local Street Fund accounts for the use of allocated state gas and weight taxes used for the maintenance and construction of local streets within the Village.
- The Library Fund accounts for the operations of a public library within the Village. Revenues are primarily derived from local unit contributions, penal fines, and property taxes.

The Village reports the following major proprietary fund:

- The Water and Sewer Fund accounts for the activities of the Village's water distribution system and sewage collection system and treatment plant.

Additionally, the Village reports the following fund type:

- The Motor Vehicle Pool Fund, an internal service fund, accounts for vehicle and equipment management services provided to other departments of the Village on a cost-reimbursement basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector standards.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Village of Lawton
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

d) Assets, liabilities, and net assets or equity:

i) Bank deposits - Cash consists of cash on hand, demand deposits, and highly liquid short-term investments with original maturities of three months or less from the date of acquisition.

ii) Receivables - No allowance for uncollectible accounts has been recorded as the Village considers all receivables to be fully collectible.

iii) Inventory of supplies:

Supplies inventory is stated at cost (as determined on the first-in, first-out basis).

iv) Capital assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., sewer and water systems, roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial, individual cost of more than \$100 (\$10,000 for infrastructure assets) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Governments can elect to account for infrastructure assets of government activities either retroactively to June 15, 1980, or prospectively. The Village has elected to account for its infrastructure assets prospectively, beginning March 1, 2004. Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings	50 years
Land improvements	20 years
Furniture, fixtures, and equipment	5 - 10 years
Vehicles	5 years
Infrastructure	50 years

v) Compensated absences:

Vacation leave is earned in varying amounts depending upon years of service and is fully vested when earned. Vacation leave is accrued as a liability based on the vacation leave accumulated at the balance sheet date.

The Village accrues half the sick leave benefits earned by the employees as a vested amount. Sick leave is recorded as a liability based on half the sick leave accumulated at the balance sheet date. The Village does not accrue for the unused accumulated sick pay that is nonvested. Unrecorded sick pay at February 28, 2005, is \$25,626. Such accumulations are reduced to the maximum amount allowed as a termination payment, based on certain limitations.

Village of Lawton
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) Assets, liabilities, and net assets or equity (continued):

vi) Property tax revenue recognition:

The Village property tax is levied each July 1 on the assessed values as of December 31 of the prior year. Village property taxes are recognized when levied. Taxes are payable to the Village from July 1 to March 1, at which time the uncollected portion is reimbursed to the Village by the Van Buren County revolving tax fund.

vii) Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the Village's general and special revenue funds. The budget document presents information by fund, function, department, and line-item. The legal level of budgetary control adopted by the governing body is the function level. All annual appropriations lapse at the end of the fiscal year.

NOTE 3 - CASH:

A reconciliation of cash, as presented in the accompanying financial statements, to the footnote is as follows:

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
Cash	<u>\$ 1,217,567</u>	<u>\$ 1,053,688</u>	<u>\$ 2,271,255</u>

Deposits are carried at cost and are maintained at various financial institutions in the name of the Village. State statutes and the Village's investment policy authorize the Village to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations. The Village's deposits are in accordance with statutory authority. At February 28, 2005, the Village has deposits with a carrying amount of \$2,271,255 and a bank balance of \$2,293,325. Of the bank balance, \$100,750 is covered by federal depository insurance and \$2,192,575 is uninsured.

Village of Lawton
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - RECEIVABLES:

At February 28, 2005, the Village's receivables were as follows:

	<u>Property taxes</u>	<u>Accounts</u>	<u>Inter- governmental</u>	<u>Totals</u>
Governmental activities:				
General Fund	\$ 68,694	\$ 13,996	\$ 37,033	\$ 119,723
Major Street Fund	-	-	19,444	19,444
Local Street Fund	-	-	7,563	7,563
Library Fund	<u>28,402</u>	<u>317</u>	<u>-</u>	<u>28,719</u>
Totals	<u>\$ 97,096</u>	<u>\$ 14,313</u>	<u>\$ 64,040</u>	<u>\$ 175,449</u>
Business-type activities:				
Water and Sewer Fund	<u>\$ -</u>	<u>\$ 68,152</u>	<u>\$ -</u>	<u>\$ 68,152</u>

NOTE 5 - CAPITAL ASSETS:

Capital asset activity for the year ended February 28, 2005, was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets not being depreciated - land	<u>\$ 217,843</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 217,843</u>
Capital assets being depreciated:				
Vehicles	173,619	-	-	173,619
Land improvements	102,686	-	-	102,686
Furniture, fixtures, and equipment	460,182	15,195	(4,614)	470,763
Buildings and improvements	<u>812,493</u>	<u>-</u>	<u>(1,116)</u>	<u>811,377</u>
Subtotal	<u>1,548,980</u>	<u>15,195</u>	<u>(5,730)</u>	<u>1,558,445</u>
Less, accumulated depreciation for:				
Vehicles	131,864	18,214	-	150,078
Land improvements	31,874	5,032	-	36,906
Furniture, fixtures, and equipment	396,725	18,566	4,614	410,677
Buildings and improvements	<u>236,680</u>	<u>15,135</u>	<u>268</u>	<u>251,547</u>
Subtotal	<u>797,143</u>	<u>56,947</u>	<u>4,882</u>	<u>849,208</u>
Total capital assets being depreciated, net	<u>751,837</u>	<u>(41,752)</u>	<u>(848)</u>	<u>709,237</u>
Governmental activities capital assets, net	<u>\$ 969,680</u>	<u>\$ (41,752)</u>	<u>\$ (848)</u>	<u>\$ 927,080</u>

Village of Lawton
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS (Continued):

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Business-type activities:				
Water and Sewer Fund:				
Capital assets not being depreciated - land	\$ 205,700	\$ -	\$ -	\$ 205,700
Capital assets being depreciated:				
Collection and distribution system	3,578,863	-	-	3,578,863
Equipment	80,948	3,747	-	84,695
Subtotal	3,659,811	3,747	-	3,663,558
Less accumulated depreciation for:				
Collection and distribution system	1,083,525	76,803	-	1,160,328
Equipment	76,194	2,604	-	78,798
Subtotal	1,159,719	79,407	-	1,239,126
Total capital assets being depreciated, net	2,500,092	(75,660)	-	2,424,432
Business-type activities capital assets, net	\$ 2,705,792	\$ (75,660)	\$ -	\$ 2,630,132

Depreciation expense was charged to governmental activities as follows:

General government	\$ 13,702
Public safety	1,687
Public works	654
Recreation and culture	15,453
Depreciation on capital assets held by internal service fund	25,451
Total governmental activities	\$ 56,947

NOTE 6 - LONG-TERM DEBT:

At February 28, 2005, long-term liabilities are comprised of the following:

The Water and Sewer Fund has an outstanding balance of \$1,500,000 on the 1998 \$1,900,000, 2.25% Wastewater Treatment Improvement Project Revenue Bonds. The bonds are due in annual principal installments of \$85,000 to \$115,000, plus interest through April 2020.

Long-term liability activity for the year ended February 28, 2005, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>
Business-type activities:				
Sewer Fund 1998 Bonds	\$ 1,585,000	\$ -	\$ (85,000)	\$ 1,500,000

Village of Lawton
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - LONG-TERM DEBT (Continued):

At February 28, 2005, debt service requirements are as follows:

<i>Year ended</i> <i>February 28</i>	<i>Business-type activities</i>	
	<i>Principal</i>	<i>Interest</i>
2006	\$ 85,000	\$ 32,794
2007	85,000	30,882
2008	90,000	28,913
2009	90,000	26,888
2010	95,000	24,807
2015	500,000	91,013
Thereafter	<u>555,000</u>	<u>31,790</u>
Totals	<u>\$ 1,500,000</u>	<u>\$ 267,087</u>

All debt is secured by the full faith and credit of the Village.

NOTE 7 - TAX REVENUE:

Tax revenue is comprised of current property taxes (real and personal) levied during the year ended February 28, 2005, and the administrative fee charged during that period. The following information is presented regarding the taxes levied and administrative fees collected concerning a major taxpayer:

	<i>Total tax</i> <i>revenue</i>	<i>Major</i> <i>taxpayer</i>	<i>Taxpayer</i> <i>percentage</i>
Current property taxes	\$ 496,793	\$ 120,399	
Administrative fees	<u>4,974</u>	<u>1,204</u>	
	<u>\$ 501,767</u>	<u>\$ 121,603</u>	24%

NOTE 8 - SEGMENT INFORMATION - ENTERPRISE FUND:

The Water and Sewer Fund provides water and sewage treatment services to the residents of the Village.

Village of Lawton
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8 - SEGMENT INFORMATION - ENTERPRISE FUND (Continued):

Segment information of the enterprise fund is provided as follows for the Water and Sewer Fund operations for the year ended February 28, 2005:

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating revenues	\$ 268,245	\$ 258,030	\$ 526,275
Depreciation	\$ 29,613	\$ 49,794	\$ 79,407
Operating income	\$ 76,434	\$ 20,367	\$ 96,801
Capital Contributions	\$ -	\$ 1,250	\$ 1,250
Change in net assets	\$ 76,683	\$ (12,040)	\$ 64,643
Fixed asset additions	\$ -	\$ 3,747	\$ 3,747
Net working capital	\$ 658,408	\$ 362,838	\$ 1,021,246
Total assets	\$ 1,131,273	\$ 2,652,080	\$ 3,783,353
Long-term debt	\$ -	\$ 1,415,000	\$ 1,415,000
Total net assets	\$ 1,115,598	\$ 1,120,780	\$ 2,236,378

A major commercial customer accounts for revenues of \$208,596, which represents 40% of total water and sewer revenues for the year ended February 28, 2005.

NOTE 9 - PENSION PLAN:

The Village sponsors a defined contribution plan for all full time employees. Employees are allowed to contribute amounts subject to IRS limitations. The Village makes a matching contribution (not to exceed 3% of covered payroll) for all personnel who contribute to the plan. For the year ended February 28, 2005, the Village and covered employees contributed \$19,751 and \$27,572, respectively to the plan.

The Village has no administrative or fiduciary responsibilities over the plan or plan assets. Accordingly, activity and balances of the plan are not included in these financial statements.

NOTE 10 - CLAIMS ARISING FROM RISKS OF LOSS:

The Village is exposed to various risks of loss to general liability, property and casualty, and workers' compensation. The risks of loss arising from general liability up to \$2,000,000, building contents, workers' compensation, and casualty are managed through purchased commercial insurance.

NOTE 11 - CONSTRUCTION CODE ACT:

A summary of construction code enforcement transactions for the year ended February 28, 2005, is as follows:

Revenues	\$ 6,035
Expenses	<u>(6,467)</u>
Deficiency of revenues over expenses	<u>\$ (432)</u>

Village of Lawton
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 12 - CHANGE IN ACCOUNTING PRINCIPLES:

Effective March 1, 2004, the Village implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, along with all related statements and interpretations. In connection with the implementation of this statement, the following adjustments to beginning net assets have been made to reflect the cumulative effect of this accounting change:

Net assets, as previously reported	
General and special revenue funds	\$ 1,275,985
Capitalization of capital assets, net of accumulated depreciation, not previously reported.	887,915
Net assets of the internal service funds are included in governmental activities in the statement of net assets.	181,466
Certain resources used in governmental activities are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	<u>64,315</u>
Net assets, as restated	<u>\$ 2,409,681</u>

REQUIRED SUPPLEMENTARY INFORMATION

Village of Lawton**BUDGETARY COMPARISON SCHEDULE - General Fund**

Year ended February 28, 2005

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Taxes	\$ 450,500	\$ 450,500	\$ 489,703	\$ 39,203
Licenses and permits	19,560	19,560	28,459	8,899
State grants	201,988	201,988	216,019	14,031
Charges for services	21,300	21,300	26,460	5,160
Fines and forfeitures	2,800	2,800	5,199	2,399
Interest and rentals	18,187	18,152	19,805	1,653
Other	8,500	4,500	4,879	379
Total revenues	<u>722,835</u>	<u>718,800</u>	<u>790,524</u>	<u>71,724</u>
EXPENDITURES				
Legislative - Village Council	<u>11,900</u>	<u>11,900</u>	<u>8,943</u>	<u>2,957</u>
General government:				
President	1,320	1,320	980	340
Elections	1,575	1,575	401	1,174
Clerk	62,500	62,500	58,570	3,930
Treasurer	5,400	5,400	4,905	495
Hall and grounds	21,900	21,900	17,351	4,549
Financial administration	88,650	88,650	76,074	12,576
Insurance and bonds	180,900	177,000	163,311	13,689
Cemetery	33,200	33,200	29,615	3,585
Tax refund settlement	<u>200,000</u>	<u>200,000</u>	<u>197,899</u>	<u>2,101</u>
Total general government	<u>595,445</u>	<u>591,545</u>	<u>549,106</u>	<u>42,439</u>
Public safety:				
Police protection	275,500	275,500	252,352	23,148
Crossing guards	<u>7,200</u>	<u>7,200</u>	<u>6,880</u>	<u>320</u>
Total public safety	<u>282,700</u>	<u>282,700</u>	<u>259,232</u>	<u>23,468</u>
Public works:				
Public works department	6,625	6,625	5,259	1,366
Sidewalks	15,600	15,600	8,904	6,696
Streets	<u>74,100</u>	<u>74,100</u>	<u>71,680</u>	<u>2,420</u>
Total public works	<u>96,325</u>	<u>96,325</u>	<u>85,843</u>	<u>10,482</u>

Village of Lawton**BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)**

Year ended February 28, 2005

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
EXPENDITURES (Continued)				
Community and economic development - planning and zoning	<u>\$ 19,300</u>	<u>\$ 19,300</u>	<u>\$ 12,778</u>	<u>\$ 6,522</u>
Recreation and cultural:				
Parks and recreation	24,200	24,200	18,617	5,583
Museum	300	300	36	264
Civic betterment	<u>5,200</u>	<u>5,200</u>	<u>4,464</u>	<u>736</u>
Total recreation and cultural	<u>29,700</u>	<u>29,700</u>	<u>23,117</u>	<u>6,583</u>
Total expenditures	<u>1,035,370</u>	<u>1,031,470</u>	<u>939,019</u>	<u>92,451</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(312,535)	(312,670)	(148,495)	164,175
FUND BALANCES - BEGINNING	<u>747,374</u>	<u>747,374</u>	<u>747,374</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 434,839</u>	<u>\$ 434,704</u>	<u>\$ 598,879</u>	<u>\$ 164,175</u>

Village of Lawton**BUDGETARY COMPARISON SCHEDULE - Major Street Fund**

Year ended February 28, 2005

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
State grants	\$ 105,000	\$ 105,000	\$ 113,111	\$ 8,111
Interest	2,200	2,200	3,424	1,224
Total revenues	<u>107,200</u>	<u>107,200</u>	<u>116,535</u>	<u>9,335</u>
EXPENDITURES				
Public works:				
Construction	51,200	51,200	36,136	15,064
Administration	3,400	3,400	3,408	(8)
Routine maintenance	16,100	16,100	13,924	2,176
Winter maintenance	<u>13,900</u>	<u>13,900</u>	<u>10,387</u>	<u>3,513</u>
Total expenditures	<u>84,600</u>	<u>84,600</u>	<u>63,855</u>	<u>20,745</u>
EXCESS OF REVENUES OVER EXPENDITURES	22,600	22,600	52,680	30,080
FUND BALANCES - BEGINNING	<u>330,791</u>	<u>330,791</u>	<u>330,791</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 353,391</u>	<u>\$ 353,391</u>	<u>\$ 383,471</u>	<u>\$ 30,080</u>

Village of Lawton**BUDGETARY COMPARISON SCHEDULE - Local Street Fund**

Year ended February 28, 2005

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
State grants	\$ 40,000	\$ 40,000	\$ 43,960	\$ (3,960)
Interest	500	500	1,004	(504)
 Total revenues	<u>40,500</u>	<u>40,500</u>	<u>44,964</u>	<u>4,464</u>
 EXPENDITURES				
Public works:				
Administration	3,050	3,050	3,056	(6)
Routine maintenance	12,900	12,900	11,393	1,507
Winter maintenance	<u>12,700</u>	<u>12,700</u>	<u>8,236</u>	<u>4,464</u>
 Total expenditures	<u>28,650</u>	<u>28,650</u>	<u>22,685</u>	<u>5,965</u>
 EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	11,850	11,850	22,279	10,429
 FUND BALANCES - BEGINNING	<u>95,835</u>	<u>95,835</u>	<u>95,835</u>	<u>-</u>
 FUND BALANCES - ENDING	<u>\$ 107,685</u>	<u>\$ 107,685</u>	<u>\$ 118,114</u>	<u>\$ 10,429</u>

Village of Lawton

BUDGETARY COMPARISON SCHEDULE -Library Fund

Year ended February 28, 2005

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Property taxes	\$ 28,750	\$ 30,750	\$ 31,839	\$ (1,089)
State grants	2,200	2,200	3,609	(1,409)
Contributions from local units	57,500	57,500	63,204	(5,704)
Fines and forfeitures	18,900	18,900	16,903	1,997
Interest	550	550	1,140	(590)
Other	1,600	1,600	1,896	(296)
Total revenues	<u>109,500</u>	<u>111,500</u>	<u>118,591</u>	<u>7,091</u>
EXPENDITURES				
General government - tax refund settlement	<u>30,000</u>	<u>30,000</u>	<u>12,970</u>	<u>17,030</u>
Recreational and cultural:				
Salaries and wages	52,000	52,000	48,468	3,532
Payroll taxes and fringe benefits	17,910	17,910	17,340	570
Office supplies	600	600	266	334
Operating supplies	3,100	3,100	1,829	1,271
Telephone	2,350	2,350	2,130	220
Electric	3,100	3,100	2,864	236
Heat	1,000	1,000	740	260
Custodial services	2,100	2,100	1,780	320
Repairs and maintenance	1,200	1,200	1,819	(619)
Building and equipment rental	1,140	1,140	1,120	20
Miscellaneous	1,100	1,100	864	236
Books, magazines, and periodicals	24,000	24,000	19,363	4,637
Audio and video cassettes	3,300	3,300	2,521	779
Memberships and dues	1,000	1,000	1,194	(194)
Education and training	600	600	135	465
Software	700	700	1,284	(584)
Total recreation and cultural	<u>115,200</u>	<u>115,200</u>	<u>103,717</u>	<u>11,483</u>
Total expenditures	<u>145,200</u>	<u>145,200</u>	<u>116,687</u>	<u>28,513</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(35,700)</u>	<u>(33,700)</u>	<u>1,904</u>	<u>(21,422)</u>
FUND BALANCES - BEGINNING	<u>101,985</u>	<u>101,985</u>	<u>101,985</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 66,285</u>	<u>\$ 68,285</u>	<u>\$ 103,889</u>	<u>\$ (21,422)</u>

SUPPLEMENTARY DATA

Village of Lawton**SCHEDULE OF ANNUAL PRINCIPAL AND INTEREST REQUIREMENTS -****\$1,900,000 1998 Wastewater treatment improvement project bonds**

February 28, 2005

<u>Fiscal period</u>	<u>Interest requirement</u>		<u>Maturity date</u>	<u>Principal</u>	<u>Total requirement</u>
	<u>April 1</u>	<u>October 1</u>			
2006	\$ 16,875	\$ 15,919	04/01/06	\$ 85,000	\$ 117,794
2007	15,919	14,963	04/01/07	85,000	115,882
2008	14,963	13,950	04/01/08	90,000	118,913
2009	13,950	12,938	04/01/09	90,000	116,888
2010	12,938	11,869	04/01/10	95,000	119,807
2011	11,869	10,800	04/01/11	95,000	117,669
2012	10,800	9,675	04/01/12	100,000	120,475
2013	9,675	8,550	04/01/13	100,000	118,225
2014	8,550	7,425	04/01/14	100,000	115,975
2015	7,425	6,244	04/01/15	105,000	118,669
2016	6,244	5,063	04/01/16	105,000	116,307
2017	5,063	3,828	04/01/17	110,000	118,891
2018	3,828	2,588	04/01/18	110,000	116,416
2019	2,588	1,294	04/01/19	115,000	118,882
2020	1,294	-	04/01/20	115,000	116,294
	<u>\$ 141,981</u>	<u>\$ 125,106</u>		<u>\$ 1,500,000</u>	<u>\$ 1,767,087</u>